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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

MAIL PROCESSING NETWORK RATIONALIZATION SERVICE CHANGES, 2012 **Docket No. N2012-1**

AMERICAN POSTAL WORKERS UNION, AFL-CIO, NOTICE OF FILING ERRATA TO REBUTTAL TESTIMONY OF PIERRE KACHA (APWU-RT-3) [ERRATA]
(May 7, 2012)

The American Postal Workers Union, AFL-CIO, hereby provides notice that it is filing corrections to the rebuttal testimony of APWU witness Pierre Kacha (APWU-RT-3). These changes are summarized below.

Table of Contents	Update page numbers
Page 2, line 10	insert "APWU-LR-N2012-1/NP8 Decision/Analysis Partners Presentation at the May 1, 2012 Technical Conference"
Page 2, line 15	insert end quote after Network
Page 3	revise Table 1
Page 4	revise Figure 1
Page 5	revise Table 2
Page 5, line 14	replace "(operating and overhead costs)" with "(RT production processing costs and overhead costs)" and revise Footnote 1
Page 6, Table: Definitions, Term "Network Configuration"	replace "loosing" with "losing"
Page 6, Table	replace definition of "Costs" with "The sum of the variable and fixed RT processing labor costs and

	transportation costs. Labor costs are computed using data and analysis in USPS-N2012-1/NP2, 15, and 46. Transportation costs are computed by estimating travel distance and transportation modes between origin to destination point, using USPS-N2012-1/65 data."
Page 7, Table	replace definition of "Overhead Costs" with "The sum of admin/other and maintenance labor costs, plus supply, fixed opening, and fixed operating non-labor costs. Based on data and analysis in USPS-LR-N2012/14, 15, and 43."
Page 7, Table: Definitions, Term "Service Performance"	delete "entering the" after below)
Page 10	revise footnote 3.
Page 12, lines 22-23	bullets added
Page 15, lines 3-4	replace "N2012-1 NP2" with "USPS-LR-N2012-1/NP2"
Page 19	revise Table 7
Page 20, line 13	delete "8.4.1 Service Performance"
Page 21	delete section "8.4.2 Mail-Processing Labor Costs" on lines 5-13 and insert "**8.5 Computing Facility Costs and Productivity Factors** (Refer to "APWU-LR-N2012-1 NP4 Cost and Productivity Calculations" for this discussion). Productivity equals processing workload divided by workload cost. To measure it, we first compute total processing demand workload and workload cost by facility using the workbooks from Library References USPS-LR-N2012-1/NP2, 15 and 46. USPS Library Reference NP2 provides formulas used to compute total demand workloads by shape. USPS-LR-N2012-1/15 provides the variable RT unit demand costs and the facility square footage values, while USPS-LR-N2012-1/46 provides the fixed RT unit costs. The unit demand costs times the total demand workloads equal the total variable RT production processing costs. The fixed RT unit costs times the facility square feet equal total fixed RT costs. We add to these costs the

	overhead costs calculated by multiplying the facility square feet by unit overhead costs derived from regression equations reported in USPS-LR-N2012-1/14 'Overhead Regression' worksheet. This sum of RT production costs and overhead costs, expressed per square foot, equals total unit costs, the inverse of which are the productivities.
Page 21, line 14	replace "Computing Demand Workload" with "**8.5.1 Computing Demand Workload"**
Page 21, line 15	insert "USPS-LR-N2012-1/" before "NP2"
Page 21, line 20	replace "1 MODS" with "One (1) MODS"
Page 22, line 1	insert "USPS-LR-N2012-1/" before "NP2"
Page 22, lines 3-5 and lines 10-11	replace "NP2_FY10 Model MODS_Demand Eq Vol Times ConvFactor.xls" with "NP2_FY2010 Workload Volumes from Conversion Factors.xls" and delete the rest of line 3 and lines 4-5.
Page 22, lines 12-18 and lines 23-24	reformat paragraph
Page 23, lines 6-9	reformat paragraph
Page 23, line 13	replace "Unit Demand Costs" with "**8.5.2 Unit Demand Costs"**
Page 23, line 20	insert "I developed" before "an"
Page 23, line 21	insert "USPS-LR15 workbook" after "of" and delete "was developed"
Page 23, lines 22-23	delete parenthetical
Pages 23-24	delete lines 23-24 and 1-6; insert "This new workbook uses the 'ProductionInfo' worksheet to produce the pivot table 'PlantIDProdctCounts' and the worksheet "RTUnitCostbyPlantIDPrdct." Columns were then added to the 'Demand' worksheet in order to use the unit RT costs in column G of 'RTUnitCostsbyPlantIDPrdct' to compute total Demand Costs, which are reported in column O of worksheet 'Demand.'"

Page 24, line 7	insert “or unit variable processing costs” after “costs,”
Page 24, line 12	replace “each such facility is” with “are each”
Page 24, line 15	insert “and” between “space” and “are”
Page 24, line 16	insert “and” before “are”
Page 24, lines 18-19	replace “The unit fixed RT costs are then defined as these daily costs divided by the respective processing square feet” with “The unit fixed RT costs are defined as these average daily fixed costs divided by the respective processing square feet.”
Page 24, line 20	delete “Note that”
Page 24, line 22	delete “they” and replace “define” with “compute”
Page 24, line 24	change “Total RT Production Variable Demand and Fixed Processing Costs” to “**8.5.3 Total RT Production Variable Demand and Fixed Processing Costs**”
Page 24-25	replace lines 25-29 and lines 1-13 with “The LTTR, FLAT, and PRCL demand workloads are multiplied by the corresponding unit costs in the workbook “Cost and Productivity Estimates_Revised.xls” to derive total variable RT demand costs. Column F in this workbook inputs the MODS CANC pieces that column H converts into AFCS demand workloads. Moreover, column F obtains these CANC pieces not from “NP2_FY2010 Workload Volumes from Conversion Factors.xls”, but from the Network Simulation Model input worksheets. Columns I, L, O, and R in “Cost and Productivity Estimates_Revised.xls” likewise input the Simulation Model L-OGP through L-INS2 MODS volumes, which columns K, N, Q, and T convert into DBCS workloads. These workloads plus the AFCS workloads equal the column-V total LTTR demand workloads. Corresponding MODS inputs and conversions into demand workloads for flats and parcels produce total FLAT and PRCL demand workloads in columns AF and AI. These LTTR, FLAT, and PRCL demand workloads are multiplied by their respective variable RT unit demand

costs in columns AJ-AL to compute the total LTTR, FLAT, and PRCL workload costs. The latter sum to the total variable RT production costs in AP. The corresponding fixed RT costs in column AR equal the column-AQ unit fixed costs times the column-E processing square feet. Total RT variable plus fixed production costs are reported in AS."

Page 25, line 14 — replace "**8.4.3**" with "**8.5.4**"

Pages 25-26 — replace entire section 8.4.3 with

"In addition to the variable and fixed RT processing costs, the Postal Service computes other/admin labor, fixed opening, supplies, maintenance labor, and fixed operating overhead costs. Columns AT, AV, and AW calculate the other/admin labor, supplies, and maintenance labor overhead costs using the formulas presented in sheet 'Overhead Regression' of the USPS-LR14 workbook "14_Mail Processing Window Scoring Tool.xls". Columns AU and AX obtain the fixed opening and fixed operating costs from the 'PlantDetails' worksheet of USPS- LR15.

For other/admin labor, supplies, and maintenance labor, USPS-LR14 defines three sets of formulas for three facility groups - again defined according to processing floor space. For group 1 facilities having 21,264 square feet or less, other/admin labor, supply, and maintenance labor costs are set at annual totals of $647,641, $52,132, and $800,218 (or $1,774, $143, and $2,192 per day), respectively. For facilities having between 21,265 and 550,000 square feet, other/admin, supply, and maintenance costs are computed based on regression equations that define costs as quadratic functions of floor space. For facilities having more than 550,000 square feet, costs are computed based on regression equations that define costs as linear functions of space."

Page 26, lines 4-17 — replace entire section 8.4.4 with

"**8.5.5 Total Costs and Productivities**

The sum of the column AT-AX overhead costs and column AS variable plus fixed RT production costs in "Cost and Productivity Estimates_Revised.xls" equal the column-AY grand total facility costs. Note that these costs do not include what Professor Bradley in USPS-

T-10 and USPS Library Reference N2012-1/20 refers to as indirect costs, which are costs accounted for by multiplicative factors, such as the service wide ratio, the miscellaneous ratio, and other piggyback factors. AZ equals the total variable plus fixed RT production unit costs, which as noted are costs per square foot, plus the total overhead costs per square foot. The inverse of these total unit facility costs equals the column-BA facility productivities.

8.5.6 Comparison of Baseline Facility Datasets
This "Cost and Productivity Estimates_Revised.xls" file computes costs and productivities for 466 baseline facilities. These 466 are all the facilities – excluding 7 located outside the contiguous 48 states – that USPS-LR-N2012-1/NP2 reports as having conducted letter, flat, or parcel sorting during FY 2010. The 466 include 10 facilities (4 of which are NDCs) that are not on the USPS-LR15 list of 476 baseline facilities, but that USPS-LR-NP2 reports as having conducted parcel sorting during FY 2010. The USPS-LR15 list includes 20 facilities not on the 466 list. These 20 are the 7 non-contiguous facilities, plus 13 others that NP2 indicates did not conduct letter, flat, or parcel sorting during FY 2010."

Page 26, line 28	replace "N2012-1 LR-64" with "USPS-LR-N2012-1/64"
Page 27, footnote 14	delete duplicate 14
Page 29, footnote 17	replace "USPS-LR-13, NP2" with "USPS-LR-N2012-1/13, NP2."
Page 30, line 15	replace "loosing" with "losing"
Page 32, line 6	replace "loosing" with "losing"
Page 32, line 10	replace "Error! Reference source not found." with "Section 8.5"
Page 32, line 15-16	replace "loosing" with "losing"
Page 32, line 19	replace "it gets reassigned to" with "to which it is reassigned"
Page 32	revise Table 9

Page 33, line 7-16	replace each “loosing” with “losing”
Page 34, line 2	replace “loosing” with “losing”
Page 34, lines 23-24	replace lines 23-24 with “Cost tables report RT production mail-processing costs (fixed and variable) and overhead costs attributable to letters and flats.“
Page 35	revise Table 10
Page 36	revise Table 12
Page 36-37	replace lines 5-17 and 1-5 with “Overhead costs consist of variable overhead costs, fixed opening costs, and fixed operating costs. A given facility’s opening and operating costs do not change unless the facility is removed from consideration. Rosenberg’s testimony (USPS-T-3) and USPS-LR-N2012-1/15 define fixed opening cost as a proxy for either the rental cost of a leased facility, or the calculated “opportunity cost” of an owned facility. USPS-T-3 and USPS-LR15 define fixed operating cost as a proxy for utility and heating fuel costs. The reason facility consolidations reduce total variable RT production costs by much less than they reduce the fixed RT production plus overhead costs is that variable RT unit costs remain constant with respect to processing floor space as this space increases over a wide range of total square feet. For example, variable RT unit letter demand cost equals a constant $0.6524 for all facilities containing square feet ranging from 0 to 210,000. It doesn’t matter if the space is 2,000 square feet or 210,000, the cost stays at $0.6524. It only falls to the next level, $0.5452, for floor space greater than 210,000, and remains at $0.5452 up to 450,000 square feet. It falls only one more time – to $0.3568 – at space exceeding 450,000. Since total variable RT letter production cost can only fall when unit variable letter cost falls, only a facility consolidation that transfers workload from a $0.6524-unit-cost closing facility to a $0.5452 or $0.3568-cost gaining facility, or from a $0.5452 to a $0.3568-cost facility will reduce total variable RT letter costs.

	In contrast, facility consolidations always reduce fixed RT production and overhead costs. These fixed production and overhead costs are fixed with respect to volume demand workload. Thus, the total cost at a losing facility that is saved when this facility closes is not matched by any increase at all in fixed production and overhead cost at the gaining facility. The gaining facility's fixed production/overhead costs instead remain constant, despite the transfer of volume-demand workload from the losing facility; because the gaining facility's total floor space stays constant.
Page 37	delete Table 13 and rename Table 14
Page 39, line 8	replace "N2012-1. USPS-N2012-1/NP2" with "USPS-LR-N2012-1/NP2"
Page 40, line 5	replace "USPS-N2012-1/17" with "USPS-LR-N2012-1/17"
Page 40, line 11	replace "N2012-1 LR-68" with "USPS-LR-N2012-1/68"
Page 40, line 24	replace "N2012-1 LR-64" with "USPS-LR-N2012-1/64"
Page 41, lines 11-12	replace "N2012-1 NP2" with "USPS-LR-N2012-1/NP2"
Page 48, lines 11-12	delete "they are calculated as discussed in this testimony (refer to the section on Performance Metrics)" and insert $Facility\ Productivity = \frac{Demand\ Workload}{Workload\ Cost}$ (Refer to the testimony for a description of the computation of Demand Workload and Workload Cost).
Page 48, line 13	replace "to" with "in"
Page 51, line 5	replace "N2012-1 LR 1/73" with "USPS-LR-N2012-1/73"
Page 53, line 20	change heading into bold font
Page 56, line 23	replace "processing" with "RT production mail-processing costs"
Page 57, line 1	replace "APWU-LR-N2012-1/NP8" with "APWU-LR-N2012-1/NP7"

Page 58, line 6 replace “production” with “RT mail-processing costs”

Accordingly, APWU is filing a complete version of the Mr. Pierre’s testimony as a replacement, with today’s revision date noted in a footer appearing at the left margin.

Respectfully submitted,

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